

access.²⁹ In addition, the Commission should cap the discount for which reimbursement would be available at the deepest volume discount level that is offered by the carrier for similar service to a commercial user.³⁰ Carriers should not be required to inform each school and library within their geographic serving area of the available discounts; such notice can be more efficiently handled through educational and library associations.³¹

Reimbursement in the amount of the special discount for a telecommunications service provided by any carrier to a qualified public institutional user should be funded by the NUSF. Funding to further promote education or public health should come from public funds, although it may be reasonably anticipated that many industry participants will continue to voluntarily offer other products and services at special rates for these users.

²⁹ NPRM, ¶ 83. Discounts off rates for telecommunications services could include access rates, flat-rate pricing plans or packages offering a specified number of hours-of-use.

³⁰ Id. For example, if a carrier provides a school with one T1.5 interoffice channel at \$2304 per month (a rate normally available only to customers who make a minimum monthly revenue commitment of \$10,000 per month for one year) rather than a rate of approximately \$3200 for a single T1.5 channel of comparable length in the same geographic area, the carrier could seek reimbursement from the NUSF for the \$896 special discount.

³¹ NPRM, ¶ 84.

III. UNIVERSAL SERVICE SUPPORT SHOULD BE AVAILABLE TO
ELIGIBLE CARRIERS AND A NEUTRAL THIRD PARTY SHOULD
ADMINISTER THE FUND.

It is also important that the Commission specify appropriate criteria to guide the states in determining which carriers are eligible to receive subsidies from the NUSF. § 214(e)(1). To qualify for subsidy payments, the carrier must provide either the core services identified above as a basic stand-alone service offering.³² Specifically, any carrier willing to offer and advertise such services and provide them by using its own facilities, using another carrier's unbundled network elements per § 251(c)(3) of the Act (paying the full TSLRIC of the relevant components), or by any combination of such facilities and elements, should be entitled to receive the subsidy on behalf of the subscribers it serves.³³ Such a rule is necessary to ensure that the NUSF support mechanism is competitively neutral and to encourage the new local entry that is the main purpose of the Act.

³² To the extent any incumbent LEC telephone network does not currently have the capability of providing these core services, it should be upgraded. NUSF support should be available to the extent that such upgrades increase local service rates above generally affordable levels.

³³ NPRM, ¶¶ 41-44. Carriers should be required to certify that they meet these qualifications and that the subsidies received will be used for their intended purpose.

Finally, the Commission should adopt a specific set of principles and procedures under which the new, consolidated support mechanism will be administered. Specifically, the new regime should be administered by a neutral organization not affiliated with any telecommunications carrier.³⁴ After the new regime has been put in place and initial subsidy levels set by the Commission, the administrator should determine the amount of the surcharge (based on guidelines established by the Commission and the Joint Board), collect surcharge receipts from service providers, distribute subsidy payments to carriers serving eligible subscribers, grant surcharge credits to resellers for the surcharge they pay to their facilities-based carriers, and enforce the eligibility criteria. The administrator should also administer direct, non-customer dependent subsidies (e.g., high cost funds) to small rural LECs.³⁵

³⁴ NPRM, ¶¶ 127-131. For example, a major accounting firm, electronic data processor or financial institution could bid on becoming the NUSF administrator.

³⁵ The Commission's authority under § 214(e) to designate eligible carriers to provide (and receive support for) interstate services should also be delegated to the administrator, under guidelines articulated by the Joint Board and the Commission, and subject to review by the Commission.

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CONCLUSION

For the reasons stated above, the Commission should adopt a new competitively neutral system of providing for universal service, so as not to impede the development of local competition as mandated by the 1996 Act.

Respectfully submitted,

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**HOW TO CALCULATE THE SUBSIDY
USING A PROXY MODEL SUCH AS THE BCM**

The Commission should require the TSLRIC standard for identifying the cost of the core set of essential services qualifying for potential universal service subsidy support. To the extent that the TSLRIC of serving a particular area would exceed what constitutes an "affordable rate" (as defined by the Joint Board), the LEC or ALEC serving the customer should be eligible to receive federal support for the difference between the TSLRIC and the affordable rate. A proxy model employing methodologies similar to those used by the Benchmark Costing Model ("BCM"), with certain enhancements, could be used for this purpose.

The BCM was developed jointly by Sprint, NYNEX, U S WEST and MCI. The BCM uses a database which assigns each Census Block Group ("CBG") in the United States to a specific LEC wire center. Using this database, it is possible to disaggregate cost studies to the wire center level. The wire center detail, in conjunction with customer location data, can be used to identify the subsidy applicable to a specific subscriber in order to implement subsidy portability. The database also allows for aggregation to higher levels, such as by population density zone, telephone company operating territory, or entire state. To further improve the BCM modeling process, several enhancements need to be made.

First, the BCM does not have business lines and multiple-line residences in the loop plant, and thus undersizes the loop plant capacity and overstates the unit cost. Business lines and multiple-line residence lines should be included in the BCM modeling process.

Second, the BCM should use TSLRIC investment per line in DLC (digital line carrier) equipment. The TSLRIC investments are more accurate than the default values used by the BCM.

Third, BCM makes an overall calculation using a single fixed nationwide multiplier to estimate expenses and capital carrying costs based on the total investment in the distribution network. A necessary improvement would be to break the loop investment into categories for applying company-specific expense factors based on ARMIS reports, and to compute capital carrying costs for the network investment. This allows for varying economic life, debt/equity ratio, cost of capital, and other financial factors to gauge their effects on the overall monthly cost results.

Fourth, the BCM should be enhanced to compute investment for customer drops and network interface devices.

DEAVERAGING THE SUBSIDY: AN ILLUSTRATIVE EXAMPLE

To the extent that there is an average subsidy identified for a company serving area, it may be based on disparate costs between density zones within that serving area. Instead of deaveraging the retail rates within the company serving area, the subsidy itself may be deaveraged, by density zone, to reflect those disparate costs.

In the example (shown on the Table on the following page), the nationwide average affordable local rate is assumed to be \$17. In those Tier 1 density zones (A and B) where the cost, based on TSLRIC, exceeds \$17, all providers are eligible for a national subsidy up to the difference between the TSLRIC and the nationwide affordable rate. In this example, the cost to provide basic local exchange service in density zone A is \$50, and the nationwide affordable rate is \$17. Therefore, the serving carrier that wins any customer in zone A can draw \$33 per primary residential line from the national New Universal Service Fund ("NUSF").

To the extent a state commission wants to maintain the current local rate, it may establish a separate competitively neutral state USF to subsidize the difference between the current local rate and the nationwide affordable rate -- *in those density zones where the TSLRIC cost is greater than the nationwide affordable rate*. Thus, as shown on the Table, if a state fund is established, the carriers serving subscribers in density zones A and B would be

eligible for an additional \$10 and \$3 per subscriber, respectively, from the state fund in each of those zones. (Of course, the state commission may alternatively adjust local rates to more closely reflect underlying costs rather than creating this additional subsidy). It should be noted that (as shown on the Table) although the current local rate in density zone E (\$15), for example, is also below the nationwide affordable rate (\$17), no state funding is warranted because the current local rate is compensatory, i.e., the TSLRIC cost (\$12) is less than the current local rate (\$15).

<u>Tier 1</u> <u>Density Zones</u> ¹	<u>Current</u> <u>Rate</u>	<u>Nationwide</u> <u>Affordable</u> <u>Rate</u>	<u>TSLRIC</u> <u>Costs</u>	<u>National</u> <u>Subsidy</u> ²	<u>State</u> <u>Subsidy</u> ³
A: (<5)	\$ 7	\$17	\$50	\$33	\$10
B: (5 - 200)	\$14	\$17	\$20	\$ 3	\$ 3
C: (200 - 650)	\$16	\$17	\$15	<i>none</i>	<i>none</i>
D: (650 - 850)	\$16	\$17	\$14	<i>none</i>	<i>none</i>
E: (850 - 2550)	\$15	\$17	\$12	<i>none</i>	<i>none</i>
F: (>2550)	\$15	\$17	\$11	<i>none</i>	<i>none</i>

¹ Households per square mile.

² Calculation determined as TSLRIC rate *less* nationwide affordable rate.

³ Calculation determined based on nationwide affordable rate *less* current rate for basic local exchange service, for lines where the current local rate is below TSLRIC.

CERTIFICATE OF SERVICE

I, Diane Danyo, do hereby certify that on this 12th day of April, 1996, a copy of the foregoing Comments of AT&T Corp. was mailed by U.S. first class mail, postage prepaid, to the parties on the attached Service List.


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